

Bill to fight 'underground economy' advances

Jan Norman, small-business columnist

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A bill in the state Legislature that is the latest in a long effort to collect taxes in California's underground economy has passed the Senate and is now being considered in the Assembly.



The project would target such activities as tax evasion, tax fraud, cash payments, under-the-table cash payments, and other "off-the-books" activities.

"The ultimate impact of the underground economy is erosion of the economic stability and working conditions in California," according to an analysis for the Senate Appropriations Committee.

SB1185 by Sen. Curren D. Price Jr., D-Los Angeles, would set up a central information sharing partnership of the State Board of Equalization, Franchise Tax Board and Employment Development Department. The partnership's processing center would share information in tracking down people who avoid paying California taxes.

An [analysis for the Senate Appropriations Committee](#) said the project could cost up to \$2.55 million annually:

- \$500,000 to \$1 million for additional staff at the three agencies
- \$200,000 to \$500,000 for staff for the partnership itself
- \$300,000 for other state agencies to participate
- \$750,000 to set up a processing center.

The Board of Equalization estimates that \$32 million in additional taxes could be collected annually by this effort. It also estimates that \$8 billion in state taxes are unpaid each year because of illegal activities, sale of counterfeit goods, payment

for services under the table, smuggling of goods into California without paying taxes and human trafficking.

An [analysis for the Senate Rules committee](#) said, "The underground economy hurts legitimate businesses, creates an enormous tax gap and hurts all California due to the loss of revenue."

Michelle Steel, who represents Orange County of the Board of Equalization, said, "In a high-tax and high-regulation state such as California, it becomes attractive to operate businesses outside the law in order to obtain a competitive advantage over law-abiding citizens. We must work together to ensure that no California business is put at a competitive disadvantage for simply following the law."

Curren's bill is not the first effort to tackle try to eliminate the underground economy.

Alan Smith, owner of Alan Smith Pool Plastering in Orange, [has been pushing for such an effort since 2010](#).

In 2010, Smith said that he paid \$35 an hour including taxes and workers comp insurance at a time that many competitors paid workers \$15 cash and dodging hundreds of millions of dollars in payroll taxes and workers comp insurance.

In January, seven state agencies and local district attorneys [formed the Labor Enforcement Task Force](#) to work in the issue.

But even before that, in 1994, then-Gov. Pete Wilson signed an executive order to create a strike force to fight the underground economy. Then in 2005, then-Gov. Arnold Schwarzenegger established a coalition of state investigators under the Dept. of Industrial Relations to prosecute "unscrupulous businesses." Gov. Jerry Brown has renamed that coalition but continued funding it this year.